

**NORTH HURON SCHOOLS
KINDE, MICHIGAN**

**FINANCIAL REPORT
JUNE 30, 2008**

NORTH HURON SCHOOLS

TABLE OF CONTENTS

	<u>PAGE NUMBER</u>
REPORT OF INDEPENDENT AUDITORS	i - ii
MANAGEMENT'S DISCUSSION AND ANALYSIS	iii - viii
BASIC FINANCIAL STATEMENTS:	
Government-wide financial statements	
Statement of net assets	1 - 2
Statement of activities	3
Fund financial statements	
Balance sheet – Governmental funds	4 - 5
Statement of revenue, expenditures and change in fund balance – Governmental funds	6
Reconciliation of the statement of revenue, expenditures and change in fund balance of governmental funds to the statement of activities	7
Fiduciary funds	
Statement of fiduciary net assets	8
Notes to the financial statements	9 - 21
Required supplementary information	
Budgetary comparison schedule – General fund	22
Budgetary comparison schedule – Library fund	23
ADDITIONAL INFORMATION:	
Non-major governmental fund types:	
Combining balance sheet	24
Combining statement of revenue, expenditures and change in fund balances	25

NORTH HURON SCHOOLS

TABLE OF CONTENTS

	<u>PAGE NUMBER</u>
General fund:	
Balance Sheets	26
Schedules of general fund revenues	27
Schedules of general fund expenditures	28 -33
Fiduciary funds:	
Statement of receipts, disbursements and fund balance- agency fund - student activities	34
Statement of receipts, disbursements and fund balance- agency fund - student activities - board controlled	35
Bonded debt	36
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	37 - 38
Schedule of Findings	39 - 42

THIS PAGE INTENTIONALLY LEFT BLANK

REPORT OF INDEPENDENT AUDITORS

To The Board of Education
North Huron Schools
Kinde, Michigan 48445

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of North Huron Schools, Kinde, Michigan, as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of North Huron Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of North Huron Schools, Kinde, Michigan, as of June 30, 2008, and the respective changes in financial position, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 15, 2008 on our consideration of North Huron School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

(Continued)

- i -

REPORT OF INDEPENDENT AUDITORS

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the North Huron Schools' basic financial statements. The additional information as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Nietzke & Faupel P.C.

NIETZKE & FAUPEL, P.C.
Sebewaing, Michigan

September 15, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of North Huron School's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2008. Please read it in conjunction with the district's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

The District's general fund showed greater expenditures than revenue. Expenditures exceeded revenue by \$25,623.

The Athletic fund showed greater revenue than expenditures. Revenue exceeded expenditures by \$64. The Athletic Fund balance has increased to \$409.

The Food Service fund showed greater revenues than expenditures. Revenue exceeded expenditures by \$6,759. This increases the fund balance from \$8,930 to \$15,689. However, the General fund transferred \$50,000 to the Food Service to help fund operations.

In total, District revenues exceeded \$5.3 million dollars for the fiscal years ended June 30, 2008 and 2007, respectively. Expenses over the same time period was \$5.2 million dollars for the fiscal years ended June 30, 2008 and 2007, respectively.

During the fiscal year 2008, the District retired over \$430,000 of principal from its long-term debt.

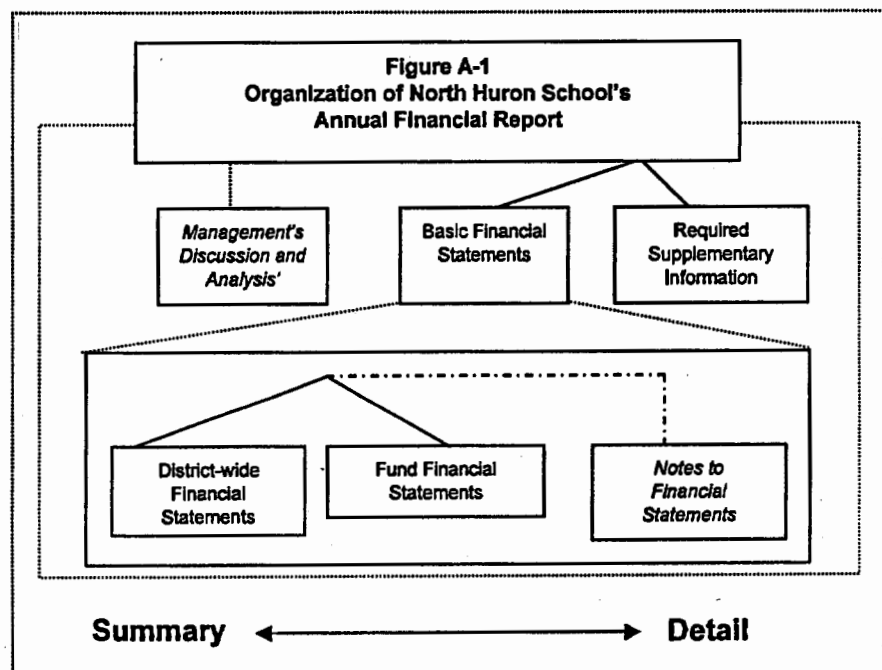
OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

The first two statements are district-wide financial statements that provide both short-term and long-term information about the District's overall financial status.

The remaining statements are *fund financial statements* that focus on *individual parts* of the District, reporting the District's operations *in more detail* than the district-wide statements.

The *governmental funds* statements tell how *basic* services like regular and special education were financed in the *short term* as well as what remains for future spending.



Fiduciary funds statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

(Continued)

The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the financial statements with a comparison of the District's budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

<p style="text-align: center;">Figure A-2 Major Features of District-Wide and Fund Financial Statements</p>			
	<u>District-wide Statements</u>	<u>Fund Financial Statements</u>	
		<u>Governmental Funds</u>	<u>Fiduciary Funds</u>
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	* Statement of net assets * Statement of activities	* Balance sheet * Statement of revenues, expenditures and changes in fund balances	* Statement of fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term, North Huron Schools funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

DISTRICT-WIDE STATEMENTS

The District-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statements of net assets include all of the District's assets and liabilities. All of the revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two district-wide statements report the District's *net assets* and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or *position*.

Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.

To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the district-wide financial statements, the District's activities include:

Governmental activities – Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property taxes and state formula aid finance most of these activities.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the District's *funds*, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

Some funds are required by State law and by bond covenants.

The District establishes other funds to control and manage money for particular purposes (like repaying its long-term debts) or to show that it is properly using certain revenues (like school lunch and athletics).

The District has two kinds of funds:

Government funds – Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information with the governmental funds statements that explain the relationship (or differences) between them.

Fiduciary funds – The District is the trustee, or fiduciary, for assets that belong to others, such as the scholarship fund and the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the district-wide financial statements because the District cannot use these to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The District's combined net assets increased \$267,252 from \$4,186,535 to \$4,453,787 as of June 30, 2008. This is an approximate increase of 6% from June 2007.

The District's improved financial position is the product of many factors. Some of the factors were an increase in property values, a reduction in expenditures, and the proper management of the adopted budget.

(Continued)

**Table A-3
North Huron Schools**

	<u>2008</u>	<u>2007</u>
Current and other assets	\$ 2,189,891	\$ 2,115,422
Capital assets, less accumulated depreciation	<u>8,684,122</u>	<u>8,913,672</u>
Total assets	<u>\$10,874,013</u>	<u>\$11,029,094</u>
Current liabilities	\$ 1,028,407	\$ 924,256
Long-term debt outstanding	<u>5,391,818</u>	<u>5,918,303</u>
Total liabilities	<u>\$ 6,420,226</u>	<u>\$ 6,842,559</u>
Net assets:		
Invested in capital assets net of related debt	\$ 2,908,854	\$ 2,701,377
Restricted	550,207	504,281
Unrestricted	<u>994,726</u>	<u>980,877</u>
Total net assets	<u>\$ 4,453,787</u>	<u>\$4,186,535</u>

**Table A-4
Change in North Huron School's Net Assets**

	<u>2008</u>	<u>2007</u>
Revenues		
Program revenues		
Charges for services	\$ 139,062	\$ 137,212
Federal and state categorical grants	657,642	656,623
General revenues		
Property taxes	2,880,299	2,650,821
State aid – unrestricted	1,413,555	1,752,184
Other	<u>193,753</u>	<u>196,623</u>
Total revenues	<u>5,284,311</u>	<u>5,393,465</u>
Expenses		
Instruction	2,723,392	2,748,910
Support services	1,583,218	1,559,918
Food services	259,474	250,943
Athletics	137,647	132,927
Interest on long-term debt	247,094	287,449
Bond refunding expenses	525	525
Unallocated depreciation	<u>65,709</u>	<u>58,826</u>
Total expenses	<u>5,017,059</u>	<u>5,039,498</u>
Increase in net assets	<u>\$ 267,252</u>	<u>\$ 353,967</u>

District Governmental Activities

The financial performance of the District as a whole is reflected in its governmental funds. As the district completed the year, its governmental funds reported combined fund balances of \$1,679,765. This is an increase of \$27,127 over the year before. The District has taken a proactive approach to its declining enrollment and stagnant state funding.

During the fiscal year 2008, the District did the following:

- Continued using an alternative energy provider.
- Invested in a new software program for both its financial and student records.
- Continued with split level classrooms.
- Reduced staff through attrition.
- Shared foreign language teacher with another district.
- Connected to a municipal water supply.
- Reduced the Superintendent and Technology Coordinator to part-time.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

General Fund

The District experienced a loss to its general fund balance due to a very small increase in the foundation allowance from the state and a decline in state aid membership of 33.55 pupils from 2007 to 2008.

Property tax values continue to rise. Local revenue increased \$204,281 while state revenue declined \$386,863. Federal revenue increased by \$19,954. Overall revenue decreased \$162,627 from 2007.

Total expenditures and outgoing transfers were up \$18,913 from last year.

Currently, the general fund's fund balance represents approximately 26% of expenditures and outgoing transfers as the District used \$25,623 of its fund balance.

Athletic Fund

Gate receipts were down \$11,467 from last year, which was unexpected, however donations were up \$13,738. Overall revenue increased \$4,963 from 2007.

Salaries increased slightly, benefit costs increased \$603. The General Fund transferred \$83,675 to the Athletic Fund to cover salary and benefit costs.

Supply and equipment purchases increased \$14,835. Miscellaneous revenue was \$12,737 while miscellaneous expense was \$2,403, a difference of \$10,334.

Food Service Fund

Local revenue decreased \$3,115; Federal and state reimbursements increased \$6,585 and \$1,269 respectively. The overall change in revenue was an increase of \$5,413 over 2007.

On the expense side, salary and benefit costs rose while food cost decreased \$1,067 over the previous year. Supply and equipment expenses decreased. The General Fund transferred \$50,000 to help cover expenses.

The Food Service Fund ended the year with an increase in fund balance of \$6,759.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Capital asset purchases by the District in 2008 consisted of maintenance for the water hookup to the City of Bad Axe for \$15,200, a school bus for \$40,019, new software for \$26,273, and other equipment for \$32,751. Capital spending totaled \$114,243 in fiscal 2008.

Table A-5
North Huron Schools Capital Assets
(Net of Depreciation)

	<u>2008</u>	<u>2007</u>
Land	\$ 20,300	\$ 20,300
Buildings and additions	8,168,951	8,401,210
Furniture and equipment	211,529	196,466
Transportation equipment	<u>213,074</u>	<u>218,401</u>
Totals	<u>\$8,613,854</u>	<u>\$8,836,377</u>

Long-term Debt

At year end, the District had over \$5.7 million in general obligation bonds and other long-term debt outstanding. This amount was about \$473,000 less than fiscal 2007. During fiscal 2008, the District repaid over \$430,000 in principal.

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the State of Michigan has NOT finalized the student foundation allowance for 2008-09. With the unfavorable economic condition of the state, an increase seems unlikely. The state has however reduced the MPERS retirement rate for 2008-09 from 16.72% to 16.54%.

Table A-6
North Huron Schools Outstanding
Long-term debt

	<u>2008</u>	<u>2007</u>
General obligation debts (financed with property taxes)	\$5,705,000	\$6,135,000
Other	<u>28,359</u>	<u>71,340</u>
Totals	<u>\$5,733,359</u>	<u>\$6,206,340</u>

Student count continues to decline. The District expects to lose another 20-25 pupils in 2008-09.

The District hired a new superintendent effective July 1, 2008.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Business Office, North Huron Schools, 21 East Main Street, Kinde, MI 48445

BASIC FINANCIAL STATEMENTS

NORTH HURON SCHOOLS
STATEMENT OF NET ASSETS
JUNE 30, 2008

ASSETS	GOVERNMENTAL ACTIVITIES
CURRENT ASSETS:	
Cash-Checking	\$ 270,831
Cash-Savings	160,765
Investments	1,373,626
Prepaid expense	3,656
Accounts receivable	2,367
Property taxes receivable	887
Grants receivable	80,327
Due from other governmental units	297,432
TOTAL CURRENT ASSETS	<u>2,189,891</u>
NON-CURRENT ASSETS:	
Bond issue costs	91,348
Less: Amortization	(21,080)
Nondepreciated capital assets	20,300
Depreciated capital assets	13,351,434
Less: Accumulated depreciation	(4,757,880)
TOTAL NON-CURRENT ASSETS	<u>8,684,122</u>
TOTAL ASSETS	<u>\$ 10,874,013</u>

NORTH HURON SCHOOLS
STATEMENT OF NET ASSETS
JUNE 30, 2008

	GOVERNMENTAL ACTIVITIES
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES:	
Accounts payable	20,110
Deferred revenue	5,714
Salaries payable	292,534
Accrued employee benefits	173,894
Accrued FICA payable	16,988
Accrued interest payable	39,254
Current portion of long-term obligations	479,913
TOTAL CURRENT LIABILITIES	1,028,407
NON-CURRENT LIABILITIES:	
Bonds payable	5,705,000
Bond premium -net of amortization	138,373
Compensated absences	28,359
Less: Current portion of long-term obligations	(479,913)
TOTAL NON-CURRENT LIABILITIES	5,391,818
TOTAL LIABILITIES	6,420,226
NET ASSETS:	
Invested in capital assets, net of related debt	2,908,854
Restricted for:	
Debt service	223,420
Library fund	326,787
Unrestricted	994,726
TOTAL NET ASSETS	4,453,787
TOTAL LIABILITIES AND NET ASSETS	\$ 10,874,013

NORTH HURON SCHOOLS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008

FUNCTIONS/PROGRAMS	EXPENSES	Program revenues		GOVERNMENTAL ACTIVITIES
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	Net (expense) revenue and changes in net assets
Governmental activities:				
Instruction	\$ 2,723,392		\$ 475,854	\$ (2,247,538)
Support services	1,583,218		55,961	(1,527,257)
Food service	259,474	\$ 87,313	125,827	(46,334)
Athletics	137,647	51,749		(85,898)
Interest on long-term obligations	247,094			(247,094)
Bond refunding expenses	525			(525)
Depreciation - Unallocated	65,709			(65,709)
Total governmental activities:	\$ 5,017,059	\$ 139,062	\$ 657,642	(4,220,355)
General revenues:				
Property taxes, levied for general purposes				2,180,966
Property taxes, levied for debt service				699,333
State aid				1,413,555
Grants and Contributions not restricted to specific programs				24,113
Investment earnings				41,998
Miscellaneous				127,642
Total General Revenues				4,487,607
CHANGE IN NET ASSETS				267,252
NET ASSETS - beginning				4,186,535
NET ASSETS - ending				\$ 4,453,787

NORTH HURON SCHOOLS

BALANCE SHEET GOVERNMENTAL FUNDS JUNE 30, 2008

	<u>GENERAL</u>	<u>DEBT SERVICE</u>	<u>LIBRARY</u>	<u>OTHER NONMAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<u>ASSETS</u>					
Cash-Checking	\$ 32,171	\$ 204,722		\$ 33,938	\$ 270,831
Cash-Savings	160,765				160,765
Investments	1,044,639		\$ 328,987		1,373,626
Prepaid expense	1,610			2,046	3,656
Accounts receivable	2,367		-		2,367
Grants receivable	80,327				80,327
Due from other funds	54,395	18,698		52,200	125,293
Due from other governmental units	297,432				297,432
TOTAL ASSETS	<u>\$ 1,673,706</u>	<u>\$ 223,420</u>	<u>\$ 328,987</u>	<u>\$ 88,184</u>	<u>\$ 2,314,297</u>
<u>LIABILITIES AND FUND EQUITY</u>					
<u>LIABILITIES:</u>					
Accounts payable	\$ 6,985			\$ 13,125	\$ 20,110
Due to other funds	70,898		\$ 2,200	52,195	125,293
Deferred revenue	5,714				5,714
Salaries payable	285,768			6,766	292,534
Accrued employee benefits	173,894				173,894
Accrued FICA payable	16,988				16,988
TOTAL LIABILITIES	<u>560,247</u>		<u>2,200</u>	<u>72,086</u>	<u>634,533</u>
<u>FUND EQUITY:</u>					
Fund balance	1,113,459	\$ 223,420	326,787	16,098	1,679,765
TOTAL FUND EQUITY	1,113,459	223,420	326,787	16,098	1,679,765
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 1,673,706</u>	<u>\$ 223,420</u>	<u>\$ 328,987</u>	<u>\$ 88,184</u>	<u>\$ 2,314,297</u>

NORTH HURON SCHOOLS

RECONCILIATION OF GOVERNMENTAL FUND BALANCES TO GOVERNMENTAL ACTIVITIES NET ASSETS JUNE 30, 2008

TOTAL GOVERNMENTAL FUND BALANCES **\$ 1,679,765**

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.

The cost of capital assets is	\$ 13,371,734	
Accumulated depreciation is	<u>(4,757,880)</u>	8,613,854

Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are not reported in the funds. 887

Long term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:

Bonds payable	\$ 5,705,000	
Compensated absences	28,359	
Accrued interest payable	<u>39,254</u>	(5,772,613)

Certain transactions related to the advance refunding of the 1998 bonds are reported as revenue and expenditures in the fund financial statements, however they are reported as assets or liabilities in the government-wide financial statements.

The transactions include the following:

Bond issuance cost	91,348	
Less: Amortization	<u>(21,080)</u>	70,267

2005 Refunding Bonds issued at a premium	(179,884)	
Less: Amortization of bond premium	<u>41,512</u>	(138,373)

NET ASSETS - GOVERNMENTAL ACTIVITIES **\$ 4,453,787**

NORTH HURON SCHOOLS
STATEMENT OF REVENUE, EXPENDITURES
AND CHANGE IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

	<u>GENERAL</u>	<u>DEBT SERVICE</u>	<u>LIBRARY</u>	<u>OTHER NONMAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
REVENUE:					
Local sources:					
Taxes	\$ 2,182,657	\$ 718,081			\$ 2,900,739
Interest	26,124	1,728	\$ 14,147		41,999
Food service				\$ 87,313	87,313
Athletic activities				51,749	51,749
Other local revenue	317,030				317,030
Total local sources	2,525,812	719,809	14,147	139,063	3,398,831
State sources	1,584,642			14,496	1,599,138
Federal sources	195,452			111,331	306,783
TOTAL REVENUE	<u>4,305,906</u>	<u>719,809</u>	<u>14,147</u>	<u>264,891</u>	<u>5,304,752</u>
EXPENDITURES:					
Education:					
Instruction:					
Basic programs	2,081,618				2,081,618
Added needs	550,013				550,013
Supporting services:					
Pupil services	5,251				5,251
Instructional staff	48,908				48,908
General administration	189,239				189,239
School administration	282,461				282,461
Business administration	1,040,669				1,040,669
Debt service:					
Principal repayment		430,000			430,000
Interest and fiscal charges	1,896	255,830			257,726
Food service				256,381	256,381
Athletic activities				135,360	135,360
TOTAL EXPENDITURES	<u>4,200,054</u>	<u>685,830</u>		<u>391,742</u>	<u>5,277,625</u>
EXCESS OF REVENUE OVER (UNDER)					
EXPENDITURES	<u>105,853</u>	<u>33,979</u>	<u>14,147</u>	<u>(126,852)</u>	<u>27,127</u>
OTHER FINANCING SOURCES (USES):					
Interfund transfers	(131,475)		(2,200)	133,675	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>(131,475)</u>		<u>(2,200)</u>	<u>133,675</u>	<u>-</u>
EXCESS OF REVENUE AND					
OTHER SOURCES OVER (UNDER)					
EXPENDITURES AND OTHER USES	<u>(25,623)</u>	<u>33,979</u>	<u>11,947</u>	<u>6,823</u>	<u>27,127</u>
FUND BALANCE-JULY 1	1,139,082	189,441	314,840	9,275	1,652,639
FUND BALANCE-JUNE 30	<u>\$ 1,113,459</u>	<u>\$ 223,420</u>	<u>\$ 326,787</u>	<u>\$ 16,098</u>	<u>\$ 1,679,765</u>

NORTH HURON SCHOOLS

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES, AND CHANGE IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2008

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS **\$ 27,127**

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement of net assets and are allocated over their estimated useful lives as annual depreciation expenses in the statement of activities.

Depreciation Expense	\$ (336,766)	
Capital Outlays	<u>114,243</u>	(222,523)

Accrued interest on bonds is recorded in the statement of activities when incurred; but it is not recorded in the governmental funds until it is paid.

Accrued interest payable, beginning of year	42,551	
Accrued interest payable, end of year	<u>(39,254)</u>	3,297

In the statement of activities special termination benefits are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid).

Accrued severance pay, beginning of year	58,598	
Accrued severance pay, end of year	<u>-</u>	58,598

Repayment of bond principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.

430,000

Certain transactions related to the advance refunding of the 1998 bonds are reported as revenue and expenditures in the fund financial statements, however they are reported as assets or liabilities in the government-wide financial statements. The transactions include the following:

Amortization of bond premium	13,837	
Amortization of bond issuance costs	<u>(7,027)</u>	6,810

Revenue is recorded on the accrual method in the statement of activities; in the governmental funds it is recorded on the modified accrual method and is not considered available:

Accrued revenue, beginning of year	(21,326)	
Accrued revenue, end of year	<u>887</u>	(20,440)

Accrued compensated absences are recorded in the statement of activities when incurred, but it is not recorded in the governmental funds until it is paid.

Accrued compensated absences, beginning of year	12,742	
Accrued compensated absences, end of year	<u>(28,359)</u>	(15,617)

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES

\$ 267,252

The accompanying notes are an integral part of the financial statements.

NORTH HURON SCHOOLS

**STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2008**

	AGENCY FUNDS
ASSETS	
Cash and equivalents	\$ 80,135
TOTAL ASSETS	<u>\$ 80,135</u>
LIABILITIES:	
Due to student groups	\$ 80,135
TOTAL LIABILITIES	<u>\$ 80,135</u>

NORTH HURON SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The North Huron School District is a consolidated school system located in Huron County, Michigan. The School has approximately 467 students in grades kindergarten through twelve. The School operates under a seven person elected Board of Education.

The basic financial statements of the North Huron School have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

The Reporting Entity:

The North Huron School District ("District") is governed by the North Huron Schools Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state and federal government sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United States of America. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statements No. 14 and 39.

Government-wide and Fund Financial Statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type activities. All of the District's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, taxes, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues but instead as *general revenues*.

In the government-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

NORTH HURON SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Government-wide and Fund Financial Statements: (Continued)

The District first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, state sources, intermediate district sources, interest income and other revenues.) The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources, intermediate district sources, interest income and other revenues.)

The District does not allocate indirect costs.

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental Funds – Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use and balances of the school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The District reports the following major governmental funds:

The *general fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

The *debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The *library fund* accounts for a contribution of a specific gift bequest received during a prior fiscal year. The contribution specified the monies be spent in conjunction with services in the Library and Media Center at North Huron Schools.

Other Non-major Funds:

The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes. The District accounts for its food service and athletic activities in the special revenue funds.

NORTH HURON SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Other Non-major Funds: (Continued)

The *Fiduciary funds* account for assets held by the District in a trustee capacity or as an agent on behalf of others. Fiduciary funds are not included in the government-wide statements.

The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual method of accounting. This fund is used to account for assets that the District holds for others in an agency capacity (primarily student activities).

Measurement Focus, Basis of Accounting and Basis of Presentation:

Accrual Method

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2008, the foundation allowance was based on pupil membership counts taken in February and September of 2007.

NORTH HURON SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Measurement Focus, Basis of Accounting and Basis of Presentation: (Continued)

State Revenue (Continued)

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October 2007 to August 2008. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Categorical funds which are not expended by the close of the fiscal year are recorded as deferred revenue.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as needed.

Other Accounting Policies:

Cash and Equivalents

Cash and equivalents include amounts in demand deposits and certificates of deposit.

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and No. 40, *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the District intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

NORTH HURON SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Other Accounting Policies: (Continued)

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

Depreciation of all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and additions	50 years
Furniture and other equipment	5 – 15 years

The District's capitalization policy is to capitalize assets with an initial individual cost of \$3,000 or more. Group purchases are evaluated on a case-by-case basis.

Compensated Absences

The District's policies generally provide for granting vacation and sick leave with pay. The current and long-term liability for compensated absences is reported on the government-wide financial statements. A liability for these amounts, including related benefits, is reported in governmental funds only if they have matured, for example, as a result of employee leave, resignations or retirements.

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net assets. Bond premiums and discounts, as well as issuance costs and the difference between the reacquisition price and the net carrying amount of the old debt, are deferred and amortized over the life of the bonds using the straight line method. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

NORTH HURON SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Other Accounting Policies: (Continued)

Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied and become a lien as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due date is September 15 and February 15, after which time the bill becomes delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2008, the District levied the following amounts per \$1,000 of assessed valuation:

<u>Fund</u>	<u>Mills</u>
General Fund – Non-homestead	18.000
Debt service fund – Homestead and non-homestead	2.700

Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

The School District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. In accordance with State law, prior to June 1, the Superintendent submits to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year, along with estimates for the current year and actual data for the two preceding years. The Board of Education requires that the budget be submitted in summary form. In addition, more detailed line item budgets are included for administrative control. The level of control for the detailed budgets is at the department head/function level.
2. Public hearings are conducted to obtain taxpayer comment.
3. Prior to July 1, the budget is legally enacted through passage of a budget resolution.
4. Formal budgetary integration is employed as a management control device during the year for the General, Debt Service, Library Fund, Food Service, and Athletic Funds. These budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

NORTH HURON SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2008

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY: (CONTINUED)

5. Appropriations lapse at the end of each fiscal year.
6. The Board of Education may authorize supplemental appropriations during the year. The Board of Education authorized budget amendments during the fiscal year at their regular scheduled board meetings.

P.A. 621 of 1978, section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

During the year ended June 30, 2008, the School District incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
General fund			
Vocational education	\$ 18,230	\$ 28,825	\$10,595
Curriculum improvement	9,144	9,179	35
Food service fund	245,131	256,380	11,249

NOTE 3 – DEPOSITS AND INVESTMENTS:

A reconciliation of cash and investments as shown on the Statement of Net Assets and Statement of Fiduciary Net Assets follows:

Statement of Net Assets

Government-wide Financial Statement Captions:

Cash - checking	\$ 270,831
Cash - savings	160,765
Investments	1,373,626

Statement of Fiduciary Net Assets

Cash and cash equivalents	80,135
Total	<u>\$1,885,357</u>

Notes to Financial Statements:

Deposits	\$ 511,711
Cash on hand	20
Investments	<u>1,373,626</u>
Total	<u>\$1,885,357</u>

NORTH HURON SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2008

NOTE 3 – DEPOSITS AND INVESTMENTS: (CONTINUED)

As of June 30, 2008, the District had the following investments.

<u>INVESTMENT TYPE</u>	<u>FAIR VALUE</u>	<u>WEIGHTED AVERAGE MATURITY (YEARS)</u>	<u>STANDARD & POOR'S RATING</u>	<u>%</u>
MILAF External Investment pool-MICMS	\$ 328,987	0.0027	AAAm	24%
MILAF External Investment pool-MIMAX	1,044,639	0.0027	AAAm	76%
Total fair value	<u>\$1,373,626</u>			<u>100%</u>

Portfolio weighted average maturity 0.0027

1 day maturity equals 0.0027, one year equals 1.00

The District voluntarily invests certain excess funds in external pooled investment funds which included money market funds. One of the pooled investment funds utilized by the District is the Michigan Investment Liquid Asset Fund (MILAF). MILAF is an external pooled investment fund of "qualified" investments for Michigan school districts. MILAF is not regulated nor is it registered with the SEC. MILAF reports as of June 30, 2008, the fair value of the District's investments is the same as the value of the pool shares.

Interest rate risk. In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

Concentration of credit risk. The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2008, \$508,054 of the District's bank balance of \$608,054 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

NORTH HURON SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2008

NOTE 3 – DEPOSITS AND INVESTMENTS: (CONTINUED)

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors with which the District will do business.

Foreign currency risk. The District is not authorized to invest in investments which have this type of risk.

NOTE 4 - INTERFUND RECEIVABLES AND PAYABLES:

<u>FUND</u>	<u>INTERFUND RECEIVABLE</u>	<u>INTERFUND PAYABLE</u>
General Fund	\$ 54,395	\$ 70,898
Debt Service	18,698	
Special Revenue Fund:		
Library Fund		2,200
Food Service	50,000	52,195
Athletic Fund	2,200	
TOTAL	<u>\$125,293</u>	<u>\$125,293</u>

For the fiscal year ended June 30, 2008, the Hot Lunch fund owed the General Fund for salaries and benefit payments. For the fiscal year ended June 30, 2008 the General Fund owed Hot Lunch Fund for grant reimbursements. For the fiscal year ended June 30, 2008, the Library Fund owed the General Fund for library computer equipment.

NOTE 5 - RECEIVABLES:

Receivables at June 30, 2008 consist of the following:

Accounts receivable	
Grants receivable	\$ 80,327
Miscellaneous	<u>2,367</u>
	\$ <u>82,694</u>
Due from other Governments	
State Aid	\$291,526
Due from Local ISD	<u>5,906</u>
	<u>\$297,432</u>

No allowance for doubtful accounts is considered necessary.
(Continued)

NORTH HURON SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2008

NOTE 6 – CAPITAL ASSETS:

A summary of changes in the District's capital assets follows:

	BALANCE JUNE 30, 2007	ADDITIONS	DELETIONS	BALANCE JUNE 30, 2008
Assets not being depreciated-land	\$ 20,300			\$ 20,300
Other capital assets:				
Buildings and additions	12,240,600	\$ 15,200		12,255,800
Furniture and equipment	465,294	59,024		524,318
Transportation equipment	596,648	40,019	\$65,351	571,316
Subtotal	<u>13,302,542</u>	<u>114,243</u>	<u>65,351</u>	<u>13,351,434</u>
Accumulated depreciation:				
Buildings and additions	3,839,390	247,459		4,086,849
Furniture and equipment	268,828	43,961		312,789
Transportation equipment	378,247	45,346	65,351	358,242
	<u>4,486,465</u>	<u>336,766</u>	<u>65,351</u>	<u>4,757,880</u>
Net capital assets	<u>\$8,836,377</u>	<u>\$(222,532)</u>	<u>\$ -</u>	<u>\$8,613,854</u>

Depreciation expense was charged to programs of the primary government as follows:

Instruction	\$133,084
Support Services	132,592
Food Service	3,094
Athletics	2,287
Unallocated depreciation	65,709
Total depreciation	<u>\$336,766</u>

NOTE 7 - LONG-TERM DEBT:

The District issues general obligation bonds to provide funds for the acquisition, construction and improvement of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District. Long-term obligations currently outstanding are as follows:

2005 refunding bonds due in annual installments of \$470,000 to \$685,000 through May 1, 2018 with interest between 3.5% and 5.0%	\$5,705,000
Obligation under contract for compensated absences	<u>28,359</u>
Total general long-term debt	<u>\$5,733,359</u>

NORTH HURON SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 7 - LONG-TERM DEBT: (CONTINUED)

The following is a summary of the debt transactions of the School District for the year ended June 30, 2008:

	<u>BALANCE JUNE 30, 2007</u>	<u>ADDITIONS</u>	<u>PAYMENTS</u>	<u>BALANCE JUNE 30, 2008</u>	<u>DUE WITHIN ONE YEAR</u>
Severance pay, and compensated absences	\$ 71,340	\$15,617	\$ 58,598	\$ 28,359	\$ 9,913
2005 Bond refunding	5,705,000			5,705,000	470,000
General obligation bonds 1998	<u>430,000</u>		<u>430,000</u>		
	<u>\$6,206,340</u>	<u>\$15,617</u>	<u>\$488,598</u>	<u>\$5,733,359</u>	<u>\$479,913</u>

The annual requirements to amortize all applicable debt outstanding as of June 30, 2008, including interest payments of \$1,414,351 are as follows:

<u>Years ending June 30,</u>	<u>Total</u>
2009	\$ 705,525
2010	709,075
2011	711,925
2012	709,076
2013	715,700
2014-2018	<u>3,568,050</u>
	7,119,351
Obligation under contract for compensated absences	28,359
Total general long-term debt and interest	<u>\$7,147,710</u>

An amount of \$223,420 is available in the debt service fund to service the general obligation debt. Interest expense for all funds for the year ended June 30, 2008 was \$257,201.

NOTE 8 – EMPLOYEE RETIREMENT SYSTEM – DEFINED BENEFIT PLAN:

Plan Description – The District contributes to the Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer defined benefit pension plan administered by the board of the MPERS. The MPERS provides retirement benefits and postretirement benefits for health, dental and vision. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Office of Retirement Services, P.O. Box 30171, Lansing, Michigan 48909-7671 or by calling (517) 322-5103.

NORTH HURON SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 8 – EMPLOYEE RETIREMENT SYSTEM – DEFINED BENEFIT PLAN: (CONTINUED)

Funding Policy – Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Actuarial rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves public school service and no pension is payable, the member's accumulated contributions plus interest, if any, are refundable.

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. For the year ended June 30, 2008, the rate was 17.74% through September 2007 and 16.72% for October 1, 2007 through June 30, 2008. The contribution requirements of the plan members and the District are established and may be amended by the MPSERS Board of Trustee. The District contributions to MPSERS for the years ended June 30, 2008, 2007, and 2006 were approximately \$384,769, \$411,279 and \$386,604, respectively, equal to the required contribution for the year.

The District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

Other Postemployment Benefits – Under the MPSERS Act, all retirees have the option of continuing health, dental and vision coverage.

NOTE 9 - OPERATING LEASES:

The School District is obligated under certain leases accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations, and therefore, the unpaid balances of the lease agreements are not reflected in the School District's long-term debt account group.

The following is a schedule by years of future minimum rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of June 30, 2008.

NORTH HURON SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 9 - OPERATING LEASES: (CONTINUED)

Years ending <u>June 30,</u> 2009	<u>Amounts</u>
	\$12,210
Total minimum payments required	<u>\$12,210</u>

NOTE 10 - RISK MANAGEMENT:

General Liability

The School District participates in the MASB-SEG Property/Casualty Pool, Inc. for the coverage of significant losses due to its general liability. The participation in the pool constitutes transfer of the risk for significant losses with a limit of \$5 million per occurrence for real and personal property losses and a limit of \$5 million in the aggregate for personal injury. For automotive liability, the pool constitutes transfer of the risk with a limit of \$5 million for bodily injury and property damage combined. For excess liability, there is a limit of \$1 million for each occurrence. The School District is required to pay an annual premium to the MASB-SEG Property/Casualty Pool, Inc. for the liability coverage. There have been no significant reductions in insurance coverage and settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

Worker's Compensation

The School District is insured through SET/SEG Workers Compensation Disability Compensation for losses related to workers' compensation claims.

Employee Health Care

The School District uses MESSA-PAK for health insurance coverage for its instructional employees and their dependents. The School District uses MEBS for health insurance coverage for its support staff, administration, and their dependents.

NOTE 11 – INTERFUND TRANSFERS:

During the year ended June 30, 2008, the general fund transferred \$83,675 to the athletic fund to cover wages and employee benefits, the general fund transferred \$50,000 to the food services fund for operations, and the library fund transferred \$2,200 to the general fund for enhancements to the library.

NOTE 12 – SUBSEQUENT EVENT:

Subsequent to year-end, the District entered into an agreement to borrow \$385,000 using a state aid note bearing interest at 1.63% and maturing August 20, 2009. The note is secured by the full faith and credit of the District as well as pledged state aid.

REQUIRED SUPPLEMENTARY INFORMATION

NORTH HURON SCHOOLS
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2008

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET OVER (UNDER)</u>
REVENUE:				
Local sources:				
Taxes	\$ 1,979,842	\$ 2,180,560	\$ 2,182,657	\$ 2,097
Interest	40,500	25,250	26,124	874
Other local revenue	277,750	318,645	317,030	(1,615)
Total local sources	2,298,092	2,524,455	2,525,812	1,357
State sources	1,625,326	1,574,528	1,584,642	10,114
Federal sources	149,319	194,004	195,452	1,448
TOTAL REVENUE	<u>4,072,737</u>	<u>4,292,987</u>	<u>4,305,906</u>	<u>12,919</u>
EXPENDITURES:				
Education:				
Instruction:				
Basic programs	2,182,305	2,153,442	2,081,618	71,824
Added needs	518,160	555,284	550,013	5,271
Supporting services:				
Pupil services	4,274	5,602	3,926	1,676
Instructional staff	64,973	59,249	50,232	9,017
General administration	185,574	205,904	189,239	16,665
School administration	278,182	285,295	282,461	2,834
Business administration	986,190	1,091,735	1,040,669	51,066
Debt service	17,800	2,000	1,896	104
TOTAL EXPENDITURES	<u>4,237,458</u>	<u>4,358,511</u>	<u>4,200,054</u>	<u>158,457</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	<u>(164,721)</u>	<u>(65,524)</u>	<u>105,853</u>	<u>171,376</u>
OTHER FINANCING SOURCES (USES):				
Huron Intermediate	(3,000)	(3,000)	-	3,000
Interfund transfers in and (out)	(99,000)	(136,300)	(131,475)	4,825
TOTAL OTHER FINANCING SOURCES (USES)	<u>(102,000)</u>	<u>(139,300)</u>	<u>(131,475)</u>	<u>7,825</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES AND OTHER USES	<u>(266,721)</u>	<u>(204,824)</u>	<u>(25,622)</u>	<u>179,201</u>
FUND BALANCE-JULY 1	1,139,082	1,139,082	1,139,082	
FUND BALANCE-JUNE 30	<u>\$ 872,361</u>	<u>\$ 934,258</u>	<u>\$ 1,113,459</u>	<u>\$ 179,201</u>

NORTH HURON SCHOOLS
BUDGETARY COMPARISON SCHEDULE
LIBRARY FUND
FOR THE YEAR ENDED JUNE 30, 2008

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET OVER (UNDER)</u>
REVENUE:				
Local sources:				
Interest earnings		\$ 13,500	\$ 14,147	\$ 647
TOTAL REVENUE	<u>\$ -</u>	<u>13,500</u>	<u>14,147</u>	<u>647</u>
OTHER FINANCING SOURCES (USES):				
Interfund transfer		(2,200)	(2,200)	-
EXCESS OF REVENUE OVER OTHER FINANCING (USES)	<u>-</u>	<u>11,300</u>	<u>11,947</u>	<u>647</u>
FUND BALANCE - JULY 1	314,840	314,840	314,840	
FUND BALANCE - JUNE 30	<u>\$ 314,840</u>	<u>\$ 326,140</u>	<u>\$ 326,787</u>	<u>\$ 647</u>

ADDITIONAL INFORMATION

NORTH HURON SCHOOLS

COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS JUNE 30, 2008

	<u>FOOD SERVICE</u>	<u>ATHLETIC ACTIVITIES</u>	<u>TOTAL NONMAJOR GOVERNMENTAL FUNDS</u>
<u>ASSETS</u>			
CURRENT ASSETS:			
Cash-Checking	\$ 30,973	\$ 2,965	\$ 33,938
Due from State	2,046		2,046
Due from General Fund	50,000	2,200	52,200
TOTAL ASSETS	<u>\$ 83,019</u>	<u>\$ 5,165</u>	<u>\$ 88,184</u>
<u>LIABILITIES AND FUND EQUITY</u>			
LIABILITIES:			
Accounts payable	\$ 9,227	\$ 3,898	\$ 13,125
Salaries payable	5,908	858	6,766
Due to General Fund	52,195		52,195
TOTAL LIABILITIES	67,330	4,756	72,086
FUND BALANCE	15,689	409	16,098
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 83,019</u>	<u>\$ 5,165</u>	<u>\$ 88,184</u>

NORTH HURON SCHOOLS

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGE IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2008

	<u>FOOD SERVICE</u>	<u>ATHLETIC ACTIVITIES</u>	<u>TOTAL NONMAJOR GOVERNMENTAL FUNDS</u>
REVENUE:			
Local sources:			
Athletic admissions and fees		\$ 15,334	\$ 15,334
Donations		23,678	23,678
Miscellaneous	\$ 4,055	12,737	16,791
Student and adult lunches	<u>83,259</u>		<u>83,259</u>
Total local sources	87,313	51,749	139,063
State sources	14,496		14,496
Federal sources:			
Reimbursements	95,867		95,867
Commodities	<u>15,464</u>		<u>15,464</u>
TOTAL REVENUE	<u>213,141</u>	<u>51,749</u>	<u>264,891</u>
EXPENDITURES:			
Salaries and wages	87,077	65,346	152,423
Employee benefits	76,252	16,953	93,205
Food	81,776		81,776
Supplies and equipment	5,302	35,715	41,017
Purchased services	1,521		1,521
Repairs	1,541		1,541
Officials		10,592	10,592
Dues and fees		2,570	2,570
Temporary labor		1,781	1,781
Miscellaneous	<u>2,913</u>	<u>2,403</u>	<u>5,316</u>
TOTAL EXPENDITURES	<u>256,381</u>	<u>135,360</u>	<u>391,742</u>
EXCESS OF REVENUE (UNDER) EXPENDITURES	<u>(43,241)</u>	<u>(83,611)</u>	<u>(126,852)</u>
OTHER FINANCING SOURCES - From General Fund	50,000	83,675	133,675
EXCESS OF REVENUE AND OTHER FINANCING SOURCES OVER EXPENDITURES	<u>6,759</u>	<u>64</u>	<u>6,823</u>
FUND BALANCE - JULY 1	8,930	345	9,275
FUND BALANCE - JUNE 30	<u>\$ 15,689</u>	<u>\$ 409</u>	<u>\$ 16,098</u>

NORTH HURON SCHOOLS
BALANCE SHEETS - GENERAL FUND

	<u>JUNE 30,</u>	
	<u>2008</u>	<u>2007</u>
<u>ASSETS</u>		
Cash - Checking	\$ 32,171	\$ 141,616
Cash - Savings	160,765	16,173
Investments	1,044,639	907,846
Prepaid expense	1,610	8,234
Accounts receivable	2,367	3,168
Grant receivable	80,327	25,652
Due from other funds	54,395	150,950
Due from other governmental units	297,432	442,434
TOTAL ASSETS	<u>\$1,673,706</u>	<u>\$1,696,072</u>
 <u>LIABILITIES AND FUND EQUITY</u>		
<u>LIABILITIES:</u>		
Accounts payable	\$ 6,985	\$ 7,794
Deferred revenue	5,714	1,790
Salaries payable	285,768	235,873
Accrued employee benefits	173,894	163,189
Accrued FICA payable	16,988	17,383
Due to other funds	70,898	130,962
TOTAL LIABILITIES	<u>560,247</u>	<u>556,990</u>
 FUND EQUITY	<u>1,113,459</u>	<u>1,139,082</u>
 TOTAL LIABILITIES AND FUND EQUITY	<u>\$1,673,706</u>	<u>\$1,696,072</u>

NORTH HURON SCHOOLS
SCHEDULES OF GENERAL FUND REVENUES

	YEARS ENDED JUNE 30,	
	<u>2008</u>	<u>2007</u>
REVENUE FROM LOCAL SOURCES:		
Property taxes:		
Current tax levy	\$ 2,164,020	\$ 1,983,556
Delinquent taxes	18,637	10,459
Interest earnings	26,124	54,040
Special education	189,389	165,334
Use of property	4,275	4,250
Sale of property	3,794	4,829
Refunds and dividends	9,822	7,720
Other transportation	25,858	21,954
Rev-service other LEA	18,564	17,741
Other grants -Local	12,611	1,914
Miscellaneous	52,718	49,732
TOTAL REVENUE FROM LOCAL SOURCES	<u>2,525,812</u>	<u>2,321,531</u>
REVENUE FROM STATE SOURCES:		
State foundation	1,413,555	1,752,184
Middle school math	-	5,263
Special education	77,111	109,568
State grants-restricted	4,373	1,967
At-risk program	89,602	102,521
TOTAL REVENUE FROM STATE SOURCES	<u>1,584,642</u>	<u>1,971,505</u>
REVENUE FROM FEDERAL SOURCES:		
Title I	118,278	103,010
Title V	1,473	1,827
Title II Part A and Title II Part D	38,809	37,988
Rural education achievement grant	17,152	13,812
Federal restricted through ISD	16,038	15,073
Medicaid outreach program	2,389	2,389
Drug-free grant	1,313	1,399
TOTAL REVENUE FROM FEDERAL SOURCES	<u>195,452</u>	<u>175,498</u>
OTHER FINANCING SOURCES:		
Transfer from Library Fund	2,200	10,000
TOTAL OTHER FINANCING SOURCES	<u>2,200</u>	<u>10,000</u>
TOTAL REVENUE	<u>\$ 4,308,106</u>	<u>\$ 4,478,533</u>

NORTH HURON SCHOOLS

SCHEDULE OF GENERAL FUND EXPENDITURES

	YEARS ENDED	
	<u>JUNE 30,</u>	
	<u>2008</u>	<u>2007</u>
INSTRUCTION:		
Basic programs:		
Elementary:		
Salaries	\$ 624,219	\$ 612,266
Salaries - Title II	30,195	27,450
Employee benefits	336,474	331,956
Employee benefits - Title II	7,358	6,006
Teaching supplies	7,833	11,616
Textbooks	12,187	11,087
Purchased services	3,472	1,062
Miscellaneous	2,510	2,734
Capital outlay	20,603	22,608
Total elementary	<u>1,044,851</u>	<u>1,026,784</u>
Secondary:		
Salaries	621,589	679,090
Employee benefits	322,721	362,681
Teaching supplies	15,610	11,767
Textbooks	13,444	10,666
Purchased services	13,228	25,513
Miscellaneous	4,413	4,139
Dual enrollment	19,630	13,725
Capital outlay	26,133	22,948
Total secondary	<u>1,036,767</u>	<u>1,130,530</u>
Total basic programs	<u>2,081,618</u>	<u>2,157,314</u>
Added needs:		
Compensatory education:		
Salaries	50,493	48,059
Workshops & conferences	2,130	74
Teaching supplies	2,276	170
Employee benefits	65,597	57,383
Audit fee	500	-
Title V expenditures	1,473	1,827
Title II expenditures	5,869	1,856
Total compensatory education	<u>128,338</u>	<u>109,369</u>

NORTH HURON SCHOOLS

SCHEDULE OF GENERAL FUND EXPENDITURES

	YEARS ENDED JUNE 30,	
	<u>2008</u>	<u>2007</u>
INSTRUCTION: (CONTINUED)		
Added needs: (Continued)		
Vocational education:		
Salaries	18,913	10,006
Employee benefits	9,912	5,061
Total vocational education	<u>28,825</u>	<u>15,067</u>
At risk education:		
Salaries	59,068	59,311
Employee benefits	30,534	30,809
Purchased services	-	12,402
Total at risk education	<u>89,602</u>	<u>102,521</u>
Special education:		
Salaries	181,422	178,575
Employee benefits	110,262	108,694
Teaching supplies	11,563	5,151
Total special education	<u>303,247</u>	<u>292,419</u>
Total added needs	<u>550,013</u>	<u>519,376</u>
TOTAL INSTRUCTION	<u>2,631,631</u>	<u>2,676,689</u>
SUPPORTING SERVICES:		
Pupil services:		
Guidance services:		
Counselor salaries	3,153	3,153
Employee benefits	768	794
Supplies	5	28
Total guidance services	<u>3,926</u>	<u>3,975</u>
Health services	<u>1,325</u>	<u>-</u>
Instructional staff:		
Technology coordinator:		
Purchased services	7,785	12,881
Total technology coordinator	<u>7,785</u>	<u>12,881</u>

NORTH HURON SCHOOLS**SCHEDULE OF GENERAL FUND EXPENDITURES**

	YEARS ENDED	
	<u>JUNE 30,</u>	
	<u>2008</u>	<u>2007</u>
SUPPORTING SERVICES: (CONTINUED)		
Instructional staff: (Continued)		
Curriculum improvement:		
Salaries	1,776	
Employee benefits	434	
Miscellaneous and supplies	776	
Purchased services	6,193	3,000
Total curriculum improvement	<u>9,179</u>	<u>3,000</u>
Library:		
Salaries	15,761	15,205
Employee benefits	10,369	9,581
Library books and periodicals	3,885	6,177
Miscellaneous and supplies	1,930	8,579
Total library	<u>31,944</u>	<u>39,541</u>
Total instructional staff	<u>48,908</u>	<u>55,422</u>
General administration:		
Board of education:		
Board salaries	4,550	3,255
Professional services	13,654	10,166
Legal services	9,887	24,133
Dues and fees	6,723	6,111
Miscellaneous	1,579	4,575
Total board of education	<u>36,393</u>	<u>48,240</u>
Executive and administration:		
Superintendent's salary	82,350	91,000
Secretary's salary	19,725	18,091
Employee benefits	44,049	49,769
Purchased services	430	1,547
Office supplies	3,959	2,183
Miscellaneous	553	100
Dues and fees	999	1,615
Materials and supplies	780	850
Total executive and administration	<u>152,845</u>	<u>165,155</u>
Total general administration	<u>189,239</u>	<u>213,395</u>

NORTH HURON SCHOOLS

SCHEDULE OF GENERAL FUND EXPENDITURES

	YEARS ENDED	
	JUNE 30,	
	2008	2007
SUPPORTING SERVICES: (CONTINUED)		
School administration:		
Principals' salaries	128,171	127,177
Secretaries' salaries	53,315	45,623
Employee benefits	90,680	86,280
Office supplies	6,427	8,839
Miscellaneous	-	200
Conferences & workshops	250	31
Graduation	3,278	3,063
Dues and fees	340	567
Total school administration	282,461	271,779
Business administration:		
Fiscal services:		
Salaries	34,850	40,994
Employee benefits	23,624	22,396
Abated property taxes	6,756	2,331
Miscellaneous	475	1,440
Total fiscal services	65,705	67,162
Technology support:		
Salaries	43,680	61,997
Employee benefits	27,164	31,462
Purchased services	12,443	15,716
Dues	-	1,002
Teaching supplies	1,805	1,555
Capital outlay	57,378	42,702
Total technology	142,470	154,434
Operation and maintenance of plant:		
Custodians' salaries	134,026	128,707
Employee benefits	79,700	69,262
Telephone, water and trash	21,280	15,268
Heating fuel	58,755	54,111
Electricity	69,002	71,711
Repairs and maintenance	30,803	18,981
Custodial supplies	32,060	27,358
Miscellaneous	365	491
Insurance	33,906	37,770
Capital outlay	28,556	54,536
Total operation and maintenance of plant	488,451	478,195

NORTH HURON SCHOOLS**SCHEDULE OF GENERAL FUND EXPENDITURES**

	YEARS ENDED	
	<u>JUNE 30,</u>	
	<u>2008</u>	<u>2007</u>
SUPPORTING SERVICES: (CONTINUED)		
Business administration: (Continued)		
Pupil transportation:		
Supervisor's salary	10,100	10,000
Mechanics' salaries	40,105	39,665
Bus drivers' salaries	61,654	59,221
Special trips	11,651	14,109
Employee benefits	103,186	85,821
Insurance	6,724	4,604
Utilities	778	744
Repairs and maintenance	921	2,716
Gas, oil, grease	49,485	32,379
Tires, tubes and batteries	8,670	6,374
Supplies	841	1,439
Miscellaneous	3,119	1,718
Capital outlay	40,019	-
Total pupil transportation	<u>337,253</u>	<u>258,790</u>
Personnel services	6,791	7,097
Total business administration	<u>1,040,669</u>	<u>965,680</u>
TOTAL SUPPORTING SERVICES	<u>1,566,527</u>	<u>1,510,250</u>
DEBT SERVICE:		
Interest and fiscal charges:		
Tax anticipation notes	<u>1,896</u>	<u>17,020</u>
Total interest and fiscal charges	<u>1,896</u>	<u>17,020</u>
TOTAL DEBT SERVICE	<u>1,896</u>	<u>17,020</u>
TOTAL EXPENDITURES	<u>4,200,054</u>	<u>4,203,961</u>

NORTH HURON SCHOOLS

SCHEDULE OF GENERAL FUND EXPENDITURES

	YEARS ENDED	
	<u>JUNE 30,</u>	
	<u>2008</u>	<u>2007</u>
OTHER FINANCING USES:		
Outgoing transfer - Huron Intermediate	-	2,976
Transfer to Food Service Fund	50,000	25,000
Transfer to Athletic Fund	<u>83,675</u>	<u>82,880</u>
TOTAL OTHER FINANCING USES	133,675	110,856
 TOTAL EXPENDITURES AND OTHER		
 FINANCING USES	<u>\$ 4,333,729</u>	<u>\$ 4,314,816</u>

NORTH HURON SCHOOLS

STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE AGENCY FUND - STUDENT ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2008

	FUND BALANCE JULY 1, 2007	RECEIPTS	DISBURSEMENTS	FUND BALANCE JUNE 30, 2008
Appreciation dinner	\$ (20)	\$ 1,267	\$ 1,151	\$ 96
Art	236	225	225	236
Class of 2007	3,029	259	3,288	-
Class of 2008	2,400	1,464	3,481	383
Class of 2009	3,016	5,090	5,401	2,705
Class of 2010	2,800	3,387	246	5,941
Class of 2011		917		917
Drama	46	952	477	521
Elementary activity	12,648	26,800	31,041	8,407
Elementary library	926	25		951
Elementary pop	163	218	240	141
Elementary flower	293		180	113
FFA and FFA Farm	16,662	21,106	15,051	22,717
Garage sale	166	2,048		2,214
Music - Band	5,738	13,746	10,924	8,560
National Honor Society	1,205	13,980	12,773	2,412
NH Scholarship	4			4
Par 4 Par	270	656	324	602
Pop	685	155	232	608
PTO	7,469	11,250	8,238	10,481
Quiz Bowl	445		445	-
Rocket Club	1,513		944	569
SADD	1,045	1,607	1,691	961
Shop	1,204	1,861	2,859	206
Student Council	2,736	6,426	7,075	2,087
Teacher Flower Fund	(47)			(47)
Teacher concessions	54			54
Toronto Trip	6,541	17,062	17,251	6,352
Yearbook	6,373	9,049	13,478	1,944
TOTALS	<u>\$77,600</u>	<u>\$139,550</u>	<u>\$137,015</u>	<u>\$80,135</u>

NORTH HURON SCHOOLS

**STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE
AGENCY FUND - STUDENT ACTIVITIES - BOARD CONTROLLED
FOR THE YEAR ENDED JUNE 30, 2008**

	FUND BALANCE <u>JULY 1, 2007</u>	<u>RECEIPTS</u>	<u>DISBURSEMENTS</u>	FUND BALANCE <u>JUNE 30, 2008</u>
Advance placement	\$ 11			\$ 11
Books - High School	592	\$ 273	\$ 633	232
Copy accounts	535			535
Interest	324	91	415	-
Library	527		452	75
Miscellaneous	(1,087)	2,289	1,254	(52)
Supply	746	1,184	982	948
TOTALS	<u>\$1,648</u>	<u>\$ 3,837</u>	<u>\$ 3,736</u>	<u>\$1,749</u>

NORTH HURON SCHOOLS

PRINCIPAL AND INTEREST REQUIREMENTS 2005 REFUNDING BOND DEBT JUNE 30, 2008

Fiscal Year ended <u>June 30.</u>	Interest <u>Rate</u>	Interest due		Principal <u>1 – May</u>	Total due <u>Annually</u>
		<u>1 – Nov</u>	<u>1 – May</u>		
2009	3.50%	\$117,763	\$117,762	\$470,000	\$705,525
2010	3.50%	109,538	109,537	490,000	709,075
2011	3.50%	100,963	100,962	510,000	711,925
2012	5.00%	92,038	92,038	525,000	709,076
2013	5.00%	82,850	82,850	550,000	715,700
2014	5.00%	69,100	69,100	575,000	713,200
2015	4.00%	54,725	54,725	605,000	714,450
2016	4.00%	39,600	39,600	635,000	714,200
2017	4.00%	26,900	26,900	660,000	713,800
2018	4.00%	13,700	13,700	685,000	712,400
Total		<u>\$707,177</u>	<u>\$707,174</u>	<u>\$5,705,000</u>	<u>\$7,119,351</u>

Bonds in the amount of \$5,705,000 were issued to refund a portion of the 1998 bond issue.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Education
North Huron Schools
Kinde, Michigan 48445

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of North Huron Schools, Kinde, Michigan as of and for the year ended June 30, 2008, which collectively comprise North Huron School's basic financial statements, and have issued our report thereon dated September 15, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the North Huron Schools, Michigan's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the North Huron School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the North Huron School's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the North Huron School's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the North Huron School's financial statements that is more than inconsequential will not be prevented or detected by the North Huron School's internal control. We consider the deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting. (2008-1 – 2008-6)

(Continued)

-37-

Circular 230 Disclosure: To the extent the above contains an opinion on one or more federal tax issues, such opinion was not written to be used and cannot be used for the purpose of avoiding penalties.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the North Huron School's internal control.

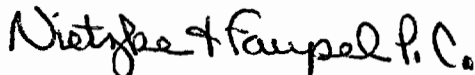
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items (2008-5 – 2008-6) to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the North Huron School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we have reported to management of North Huron Schools, in a separate letter dated September 15, 2008.

This report is intended solely for the information and use of the management, Board of Education, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.



NIETZKE & FAUPEL, P.C.
Sebewaing, Michigan

September 15, 2008

NORTH HURON SCHOOL DISTRICT
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2008

FINDINGS-FINANCIAL STATEMENTS AUDIT

Significant Deficiencies

2008-1 Cash Receipts

Condition: Presently, a single individual collects the cash receipts, prepares the bank deposits and records the receipts.

Criteria: To the extent possible, duties should be segregated to serve as a check and balance on the employee's integrity and to maintain the best control system as possible.

Effect: This could allow for unrecorded funds or incorrectly recorded funds.

Recommendation: We suggest that the cash custody duties be separated from the record keeping duties if possible.

Response: We are aware of this deficiency and to the extent possible we will attempt to segregate the above duties.

2008-2 Accounts Payable

Condition: One individual is responsible for entering the accounts payable, printing the checks and stamping the signature on them.

Criteria: The custody of the blank checks should be kept separate from the custody of the signature stamp which should be kept separate from the individual with access to the accounting system.

Effect: Segregation of the cash disbursement process is necessary to ensure that the School's funds are not being misappropriated and that only properly authorized disbursements are being made.

Recommendation: We recommend the custody of the blank checks be kept separate from the custody of the signature stamp which should be kept separate from the individual with access to the accounting system. We also recommend that someone else, such as a board member, sign the checks after the meeting.

Response: We are aware of this deficiency and to the extent possible we will attempt to segregate the above duties.

2008-3 Payroll Procedures

Condition: One employee is currently entering all of the payroll information, printing and stamping the manual checks along with authorizing the ACH for the direct payroll deposit without an independent review of the transactions.

Criteria: The custody of the blank checks should be kept separate from the custody of the signature stamp which should be kept separate from the individual with access to the payroll accounting system.

NORTH HURON SCHOOL DISTRICT
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2008

FINDINGS-FINANCIAL STATEMENTS AUDIT (CONTINUED)

Significant Deficiencies (Continued)

Payroll Procedures (Continued)

Effect: Segregation of the payroll processes are necessary to ensure that only hired employees are being paid the board approved wages and that the amounts are being properly distributed through ACH or manual checks and are being correctly accounted for.

Recommendation: The internal control for the payroll process could be improved by adding a review of the payroll transactions before the authorization of the ACH and having a different individual signing the checks. We also suggest that a review process of bank reconciliations be implemented to mitigate some of the segregation issues.

Response: We are aware of this deficiency and to the extent possible we will attempt to segregate the above duties.

2008-4 Balanced Budget

Condition: During our audit, we found a few instances where the School was not in compliance with P.A. 2 regarding budget procedures.

Criteria: The Act provides that a local unit of government not incur expenditures in excess of the amount budgeted. During the year ended June 30, 2008, the School incurred expenditures in certain budgetary funds which were in excess of the amounts budgeted.

Effect: Incurring expenditures in excess of the appropriated amounts could have a negative effect on fund balance.

Recommendation: In order to avoid incurring expenditures in excess of the appropriated amounts, the Act requires that the budget be amended when necessary. This would include reducing the budgeted amount if actual revenues are less than the estimated revenues originally budgeted, and increasing the budget to allow expenditures in excess of the original budget if excess amounts are available for transfer within the fund or if additional revenues become available. This can only be done if there are periodic comparisons between budget and actual figures throughout the year. We recommend that monthly comparisons be made between budgeted and year-to-date actual revenue and expenditures.

Response: The financial officer will make monthly comparisons between budgeted and year-to-year actual revenue and expenditures and will report to the Superintendent any discrepancies. The finance committee will meet regularly to review the budget and year-to-year expenditures. Recommendations will come from the finance committee to the Board for budget amendments.

NORTH HURON SCHOOL DISTRICT
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2008

FINDINGS-FINANCIAL STATEMENTS AUDIT (CONTINUED)

Material Weaknesses

2008-5 Preparation of Year End Closing Procedures

Condition: This year, as in the past, we assisted the accounting staff with the basic year-end bookkeeping and accounting procedures that are necessary to prepare the books for audit purposes. This also included the preparation of several material year end adjusting entries that were necessary to keep the financial statements from being materially misstated.

Criteria: The accounting staff should be able to perform the year end closing procedures and prepare the appropriate year end closing entries in order to ensure that the year end financial statements are not materially misstated. Also, the year end closing procedures should be supervised and reviewed by a member of management with an adequate knowledge of the School's activities during the fiscal year.

Effect: This situation could allow the misstatement of the financial statements.

Recommendation: With adequate training, the accounting staff should become familiar with the necessary procedures to complete the year end accounting. In time, the condition of the accounting records should become better and less assistance will be required in this area by the auditors. We suggest that the School provide its accounting staff with the necessary training to ensure they are able to efficiently prepare the year end accounting for the audit.

Response: The District does not intend to increase the accounting staff in the central office in order to continue to generate a savings to the general fund. Therefore, the in-house accounting staff will require additional training, to complete the preparation for year end closing. It is the goal of the District to have the accounting staff prepared to complete this task within the next couple of years. In the interim, the District will by necessity continue to subcontract this task to an independent firm.

2008-6 Preparation of the GAAP Basis Financial Statements

Condition: Along with assisting with the year end closing procedures to the School's accounting records, we also assisted the School by preparing the annual financial statements (including required disclosures) of the School prepared in accordance with generally accepted accounting principles.

Criteria: The responsibility for the School's annual financial statements prepared in accordance with generally accepted accounting principles rests with the management of the School. Management is also responsible for the system of internal accounting controls used to ensure that the financial statements are not materially misstated.

Effect: This situation could allow the misstatement of the financial statements.

Recommendation: We recommend that the School acquire the expertise necessary to prepare the annual financial statements including the required disclosures in accordance with generally accepted accounting principles.

NORTH HURON SCHOOL DISTRICT
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2008

FINDINGS-FINANCIAL STATEMENTS AUDIT (CONTINUED)

Material Weaknesses (Continued)

Preparation of the GAAP Basis Financial Statements (Continued)

Response: We are aware of this deficiency and believe it is not cost beneficial in our situation to develop this expertise. We will continue to use our external auditors for this technical assistance. We would expect this situation to be ongoing in future years.



Partners: Donald C. Faupel, CPA Jeffrey P. Bushey, CPA
Consultant: Allan W. Nietzke, CPA
Principals: Eugene R. Gascho, COO
Brian V. Hazard, CPA JoAnn E. Lakie, CPA

Members of: Michigan Association of Certified Public Accountants • American Institute of Certified Public Accountants

CPA's On Your Team

To The Board of Education
North Huron Schools
Kinde, Michigan

The following comments relate to situations brought to our attention during the course of our recent audit of the financial statements of North Huron Schools for the year ended June 30, 2008 and are submitted for your evaluation and consideration. We would like to emphasize that our audit was conducted for the purpose of expressing an opinion on the aforementioned financial statements; therefore, the following comments are not necessarily all inclusive.

PRIOR YEAR COMMENTS

For the year ended June 30, 2007 a letter of comments and recommendations was issued dated September 12, 2007. The letter discussed situations which came to our attention during the course of the audit of the financial statements for the year ended June 30, 2007. These situations included: Excess expenditures over appropriations and insured investments. During the audit for the year ended June 30, 2007, it was noted that some changes were implemented regarding prior year recommendations.

INVESTMENTS

During the year ended June 30, 2008, the School Board authorized the investment of excess operating funds in a municipal and governmental investment fund. We want to remind the School Board that money invested in this type of fund is not fully insured by the FDIC.

During the year ending June 30, 2008, the School Board also authorized the investment of excess operating funds in the Michigan School District Liquid Asset Fund. We want to remind the School Board that the money invested in this fund is invested in several types of investments and that only the School District's share of investments in certificates of deposit are insured up to \$100,000 by the FDIC.

The above recommendations are being made in an effort to improve the School District's system of record keeping and to aid the School District in conforming to State requirements. Each of the items noted above were discussed with the School District's administration. If you have any questions regarding these recommendations, please contact us.

Nietzke & Faupel P.C.

NIETZKE & FAUPEL, P.C.
Sebewaing, Michigan

September 15, 2008

September 15, 2008

To the Board of Education
North Huron Schools

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the North Huron Schools for the year ended June 30, 2008, and have issued our report thereon dated September 15, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibilities under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated November 28, 2007, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of North Huron Schools. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed test of North Huron Schools' compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on July 29, 2008.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by North Huron Schools are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2007-2008. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were the estimated liability for compensated absences and estimated fixed asset lives for depreciation.

Management's estimate of the liability of the payout of employee compensated absences upon their retirement is based on expected payout. We evaluated the key factors and assumptions used to develop the balance of compensated absences in determining that it is reasonable in relation to the financial statements taken as a whole.

Management estimates the lives of capital assets. We evaluated the key factors and assumptions used to develop the estimated life span of the capital assets in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 15, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

North Huron Schools
September 15, 2008
Page 3

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Education and management of North Huron Schools and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Nietzke & Faupel P.C.

NIETZKE & FAUPEL, P.C.
SEBEWAING, MICHIGAN

September 15, 2008